

CALIFORNIA STATE UNIVERSITY

LONG BEACH

***Southern California Regional
Economic Forecast***

Lisa M. Grobar, Ph.D.

Office of Economic Research

OER@CSULB.EDU

California State University, Long Beach

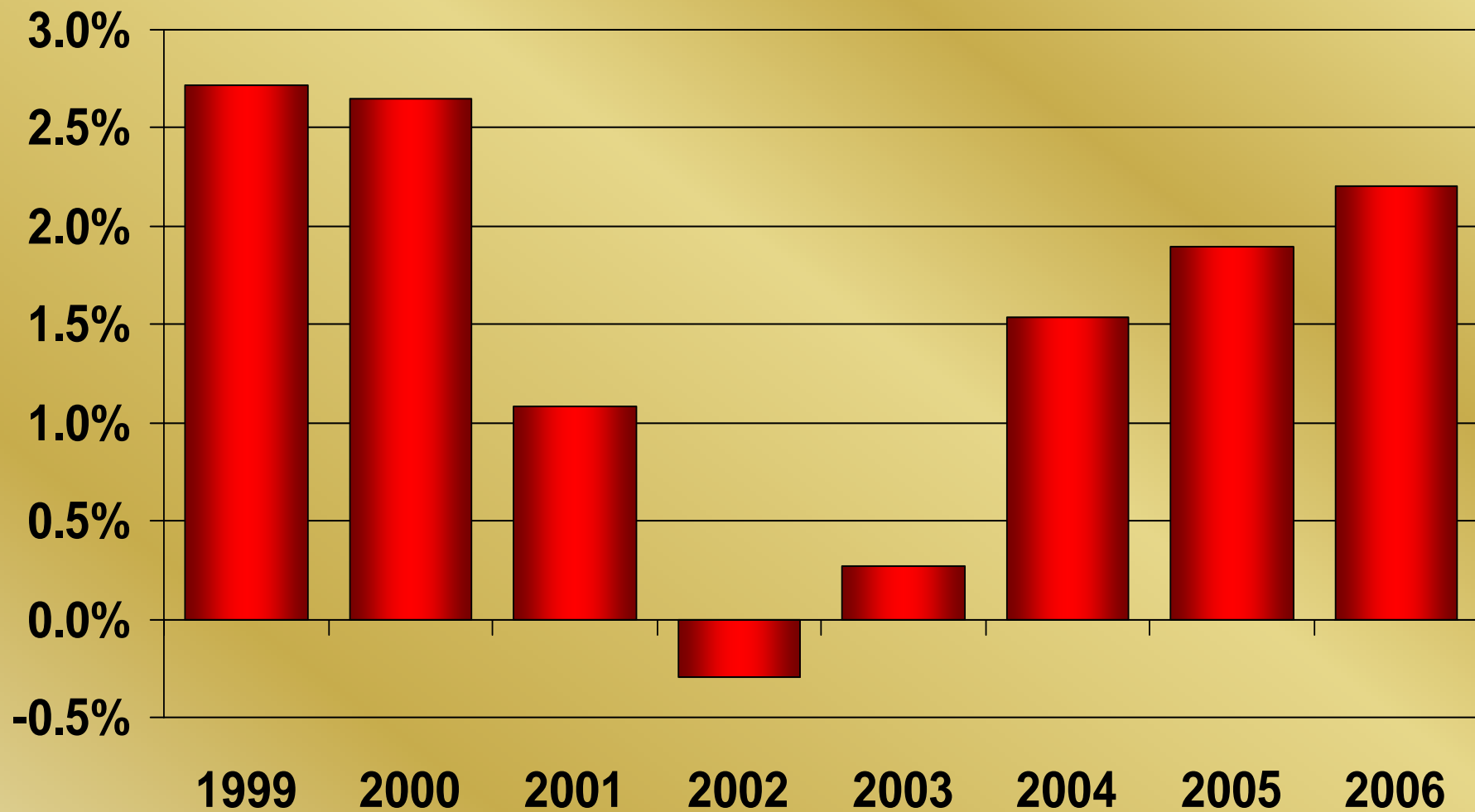
US Assumptions Underlying Regional Economic Outlook

- **Growth slows to 2.4 percent in 2007**
- **Inflation moderates this year**
- **Fed to hold fed funds close to current level for extended period**
- **GDP growth accelerates back to 3 percent by 2008**

The Regional Economy

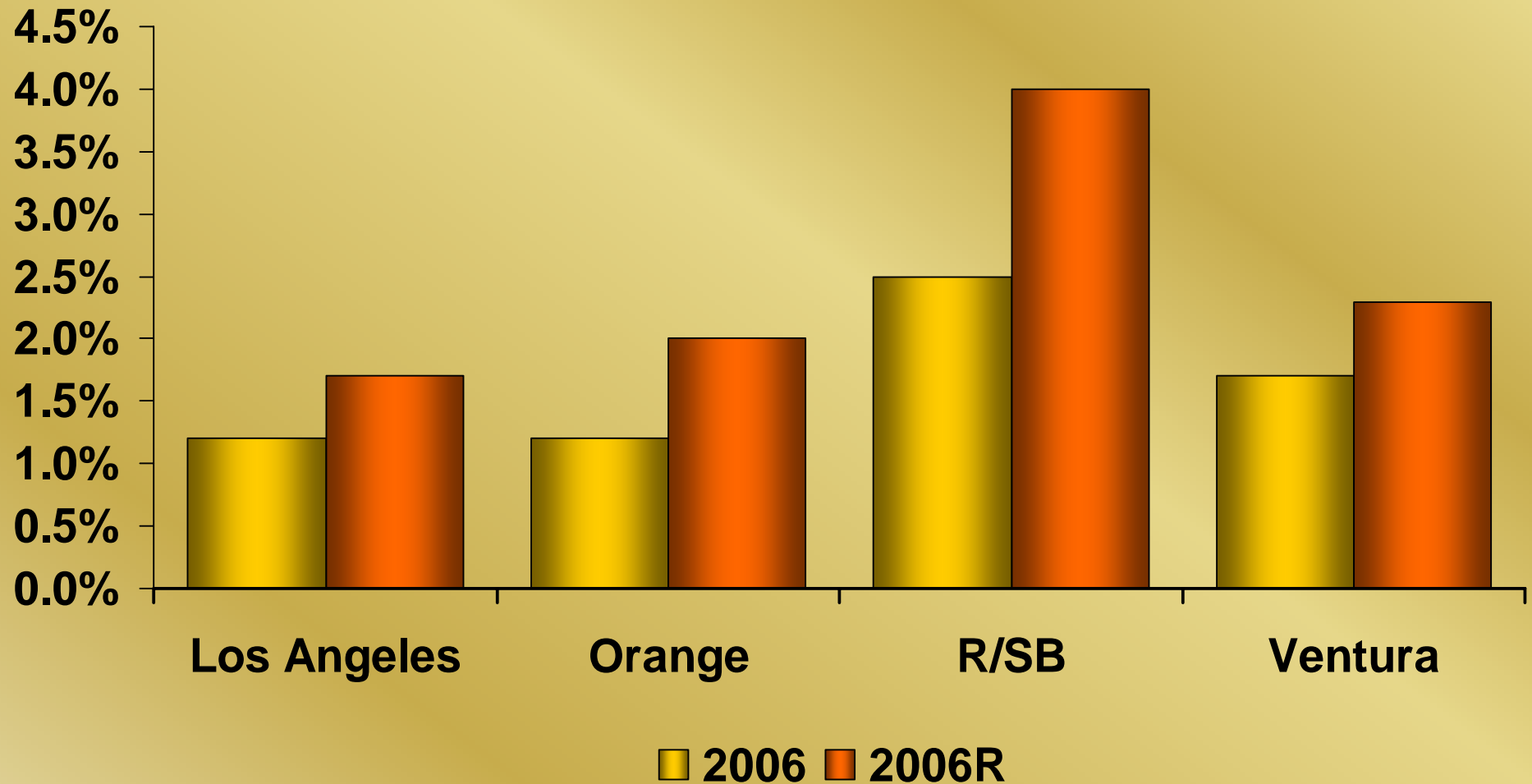
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The Region's Economy



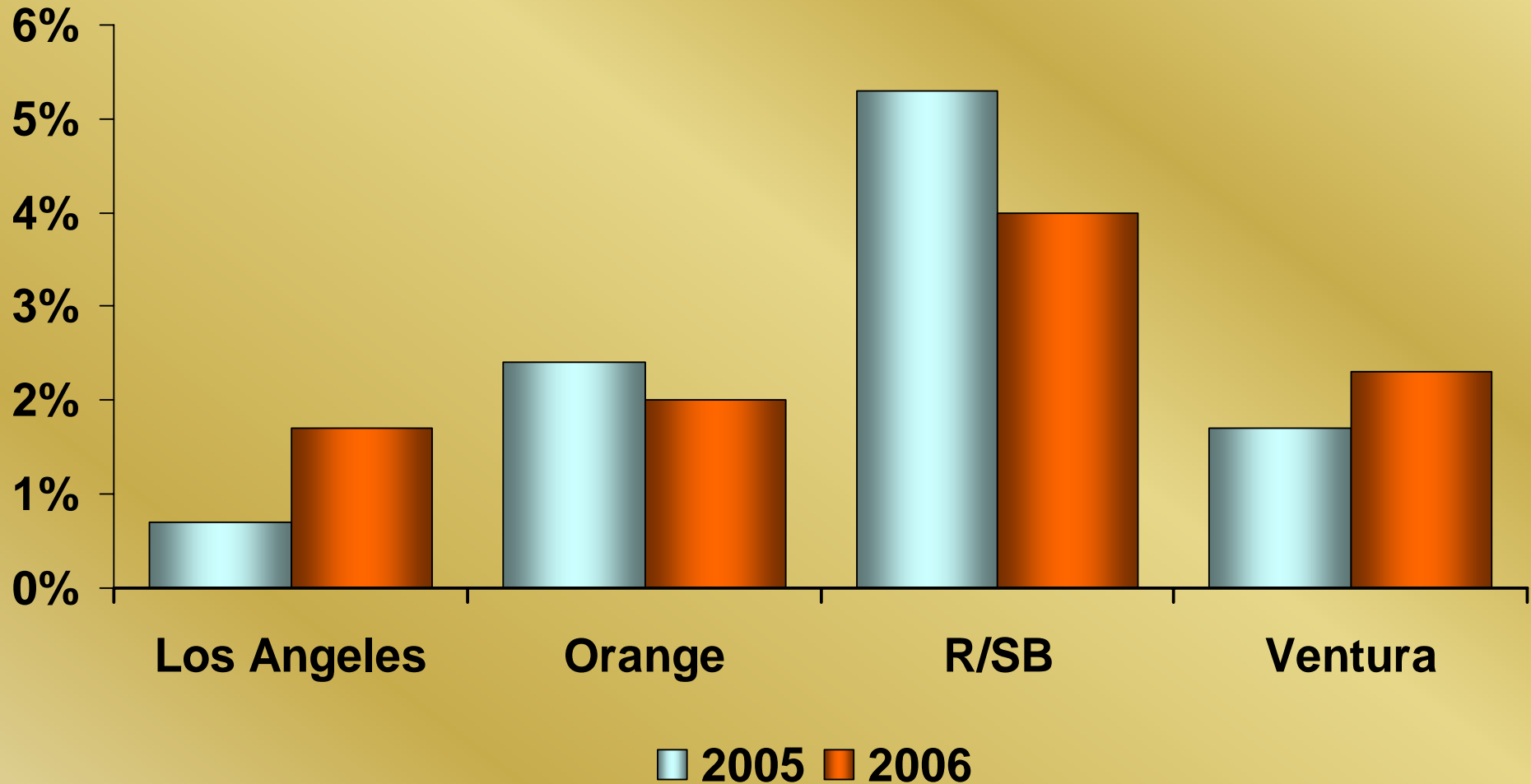
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March 2006 Benchmark Revisions



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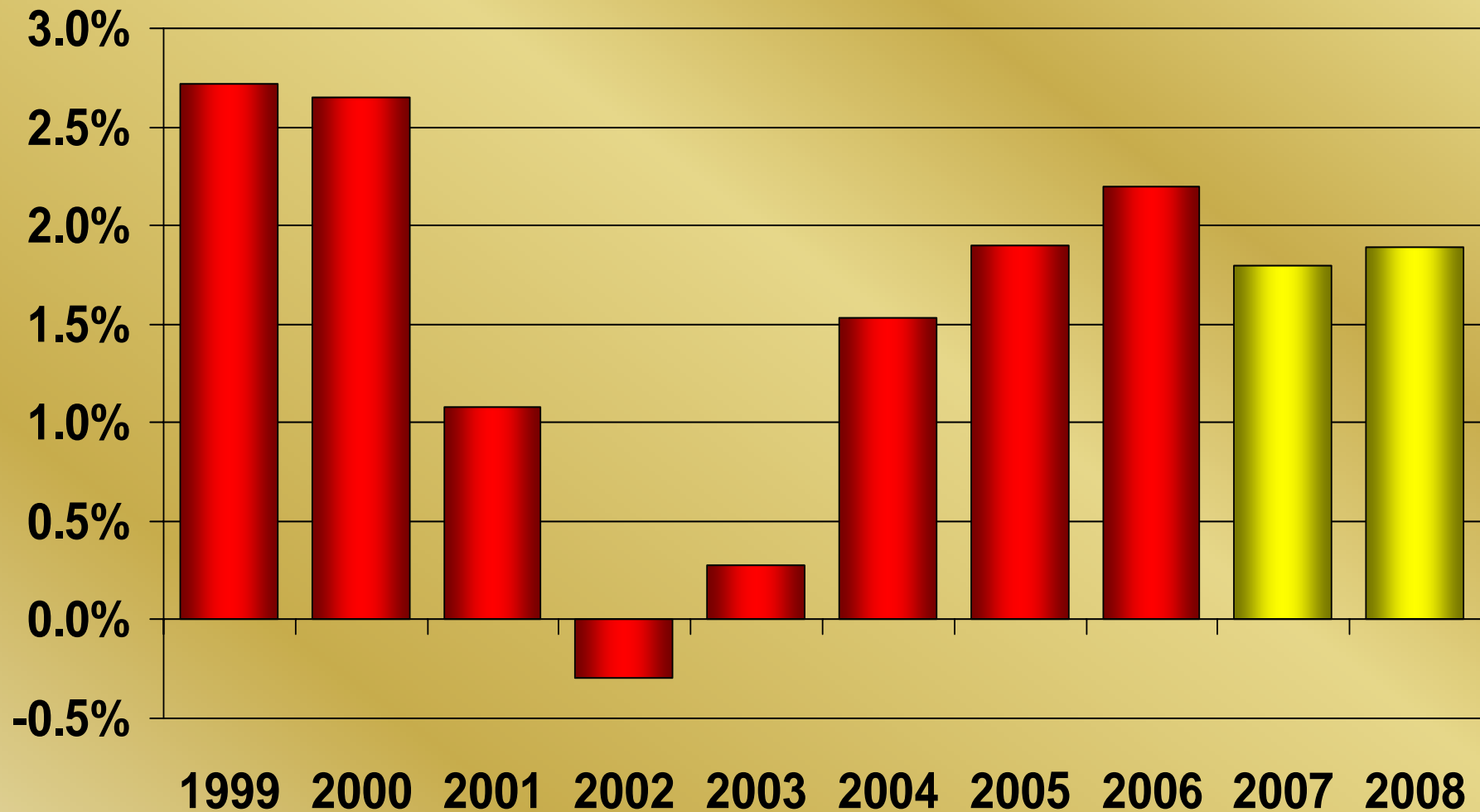
In 2006 the distribution of growth shifted



Reasons for the shifting distribution of growth

- **In recent years, sectors dependent on housing market were unusually strong**
- **With rising interest rates rise and a cooling housing market, these sectors are slowing**
- **This has disproportionately affected Orange and Riverside/San Bernardino**
- **Fortunately, Los Angeles is seeing stronger job growth**

The Region's Economy: Forecast



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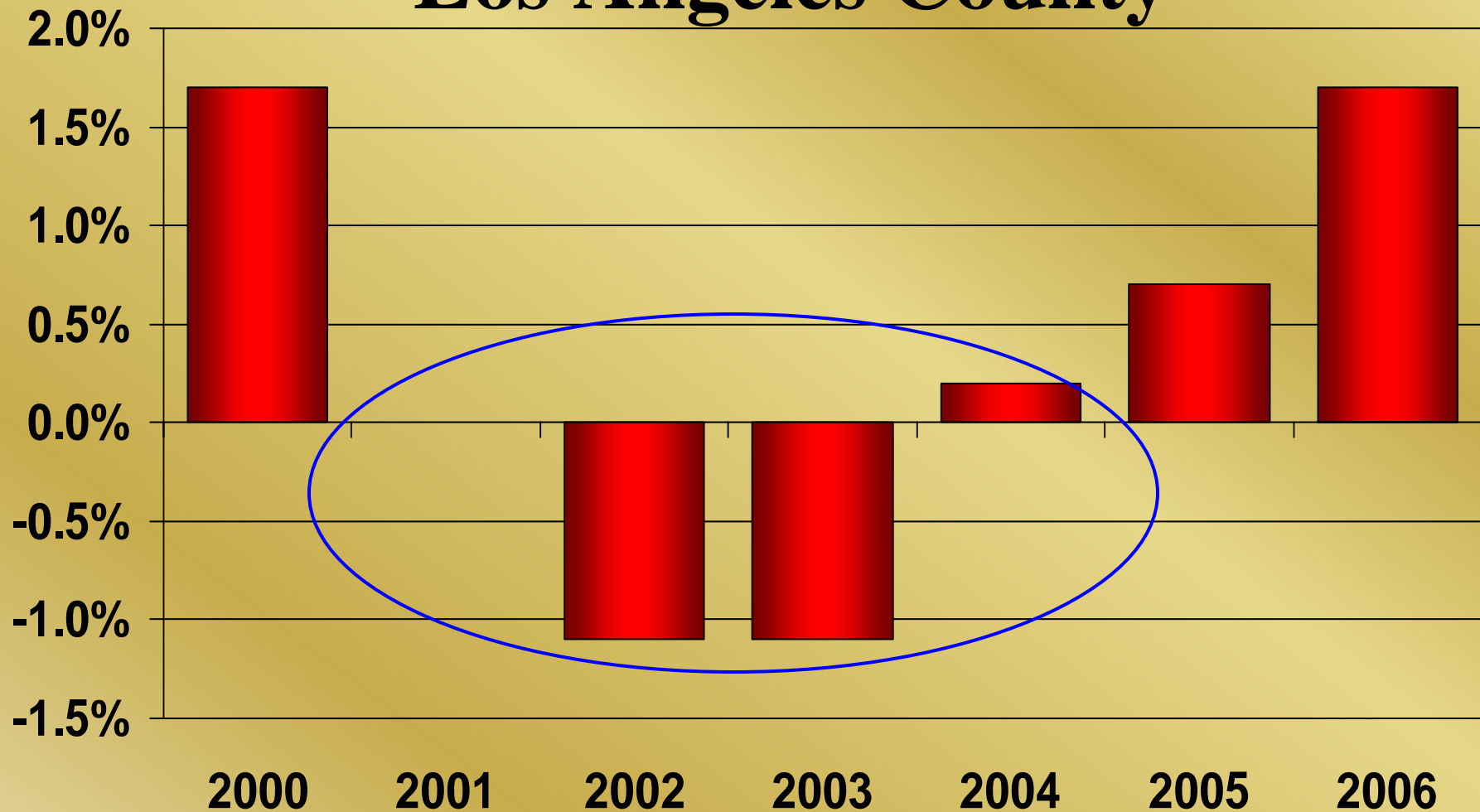
Regional Economy: Summary

- **Regional growth will hold up well in spite of slowing national economy**
- **Southern California will outperform nation in job creation over the next two years**
- **Growth will be led by service sector: particularly health and leisure/hospitality**

Economic Outlook
Los Angeles County

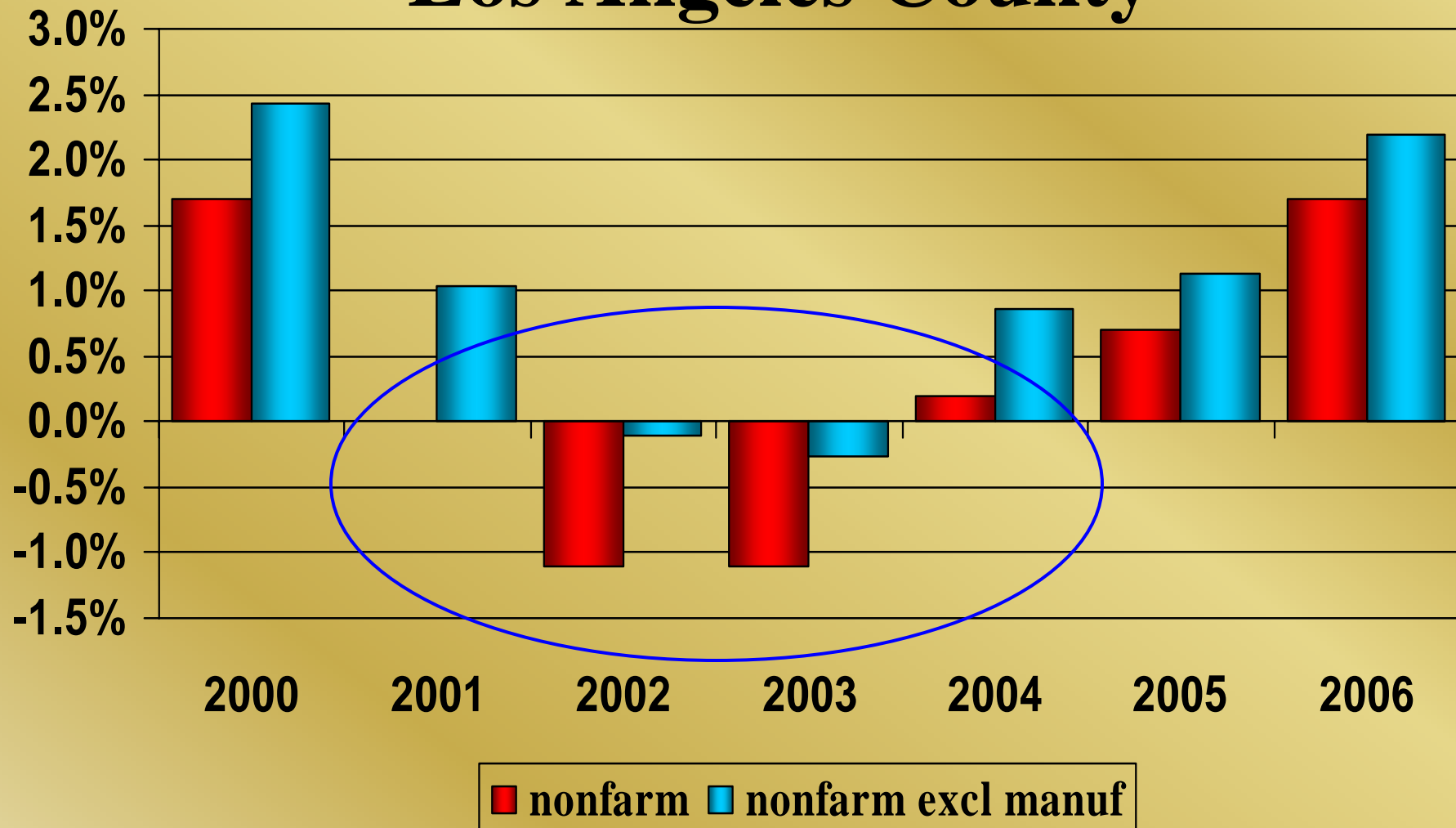
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Total Nonfarm Employment Los Angeles County

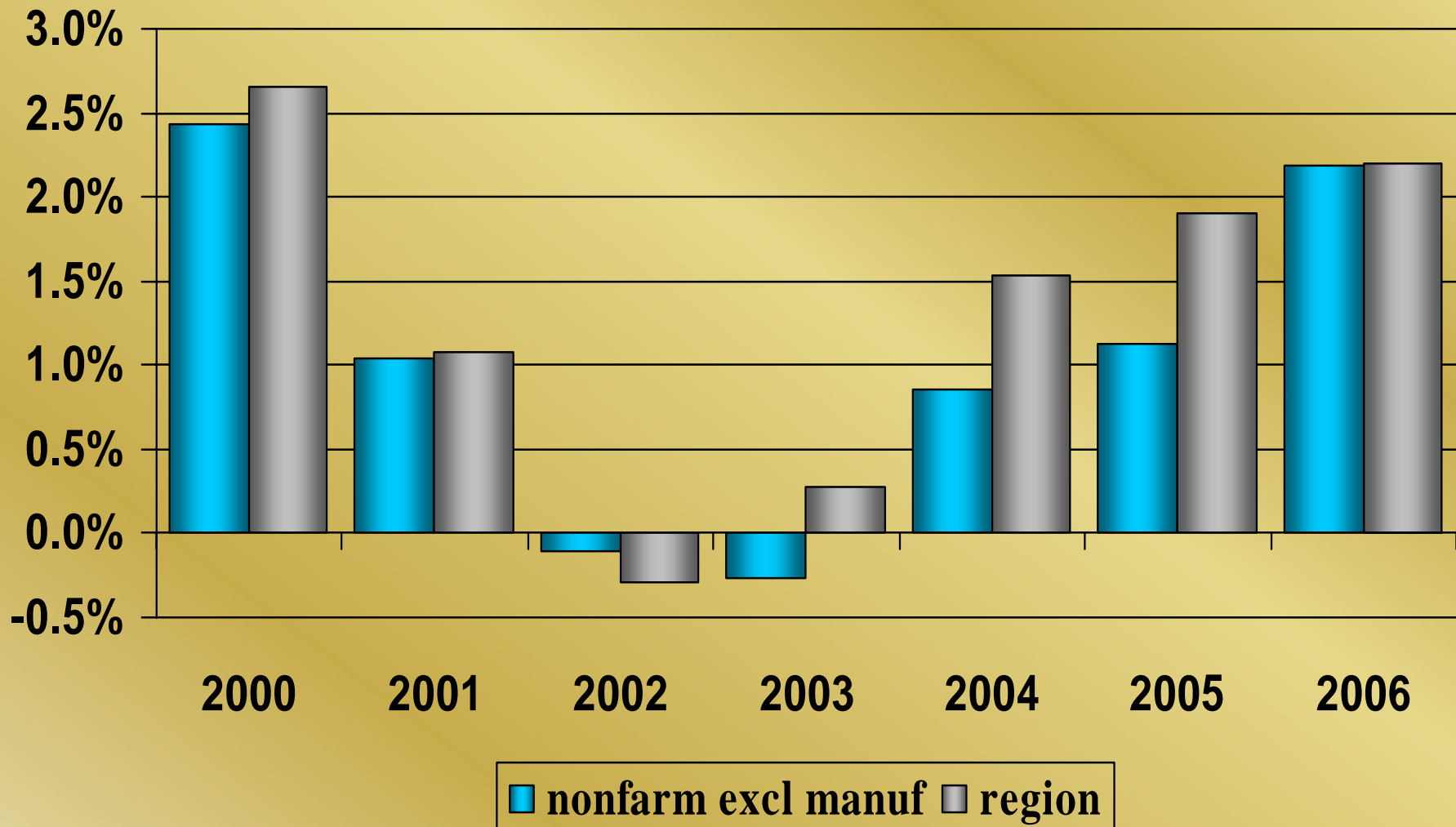


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Employment Trends Los Angeles County



Trends: LA County vs. Region



Los Angeles County Economy

- Los Angeles County experienced a period of structural adjustment during 2001-04
- During this time, gains in non-mfg employment were offset by mfg losses
- We believe this county is now on track to post solid gains in employment.

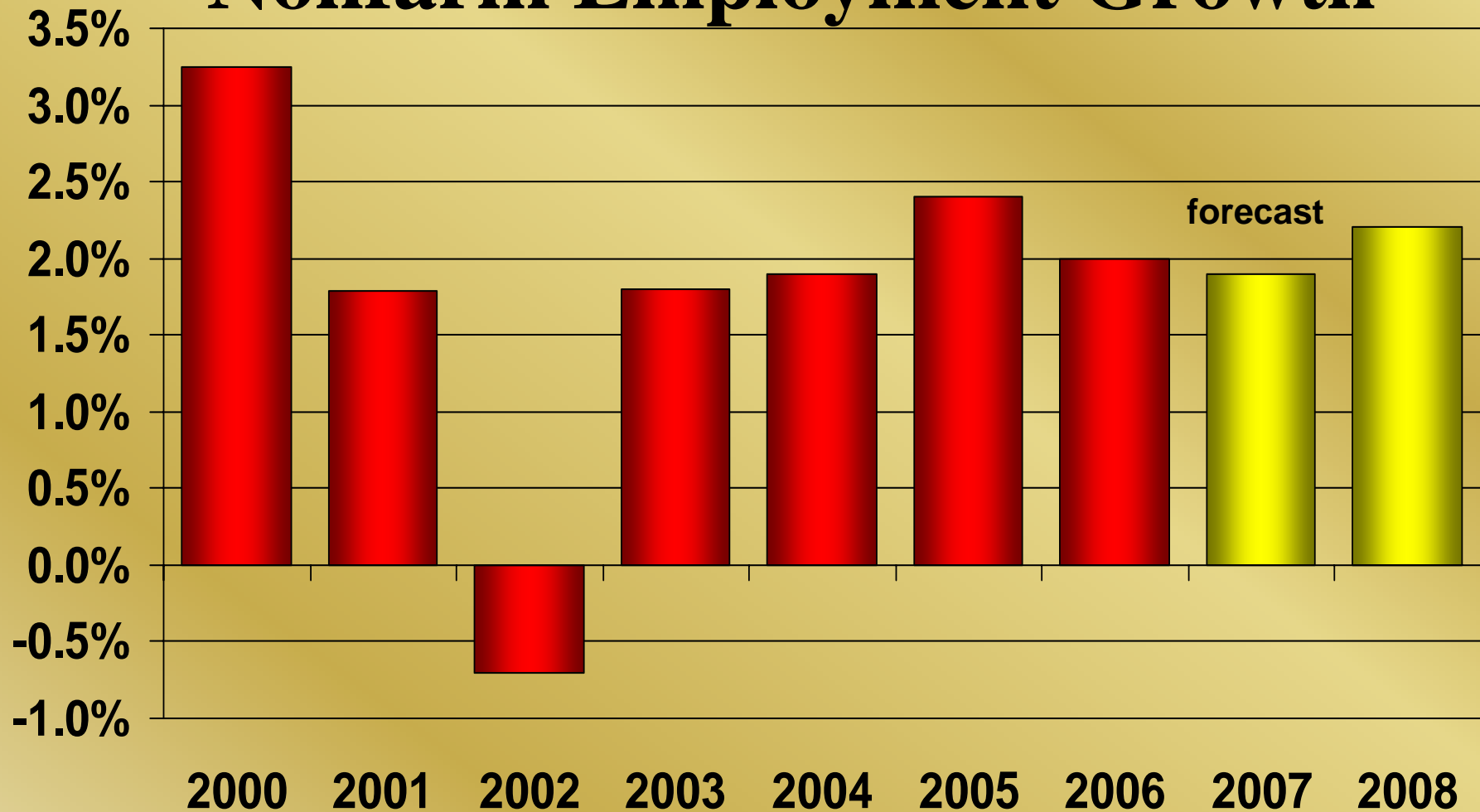
Los Angeles County Sectors with Largest Job Gains in 2006

Prof. & Business Services	18,600
Health Care & Private Education	10,000
Leisure & Hospitality	9,700
Retail	8,800
Construction	8,000

Economic Outlook *Orange County*

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Orange County Nonfarm Employment Growth



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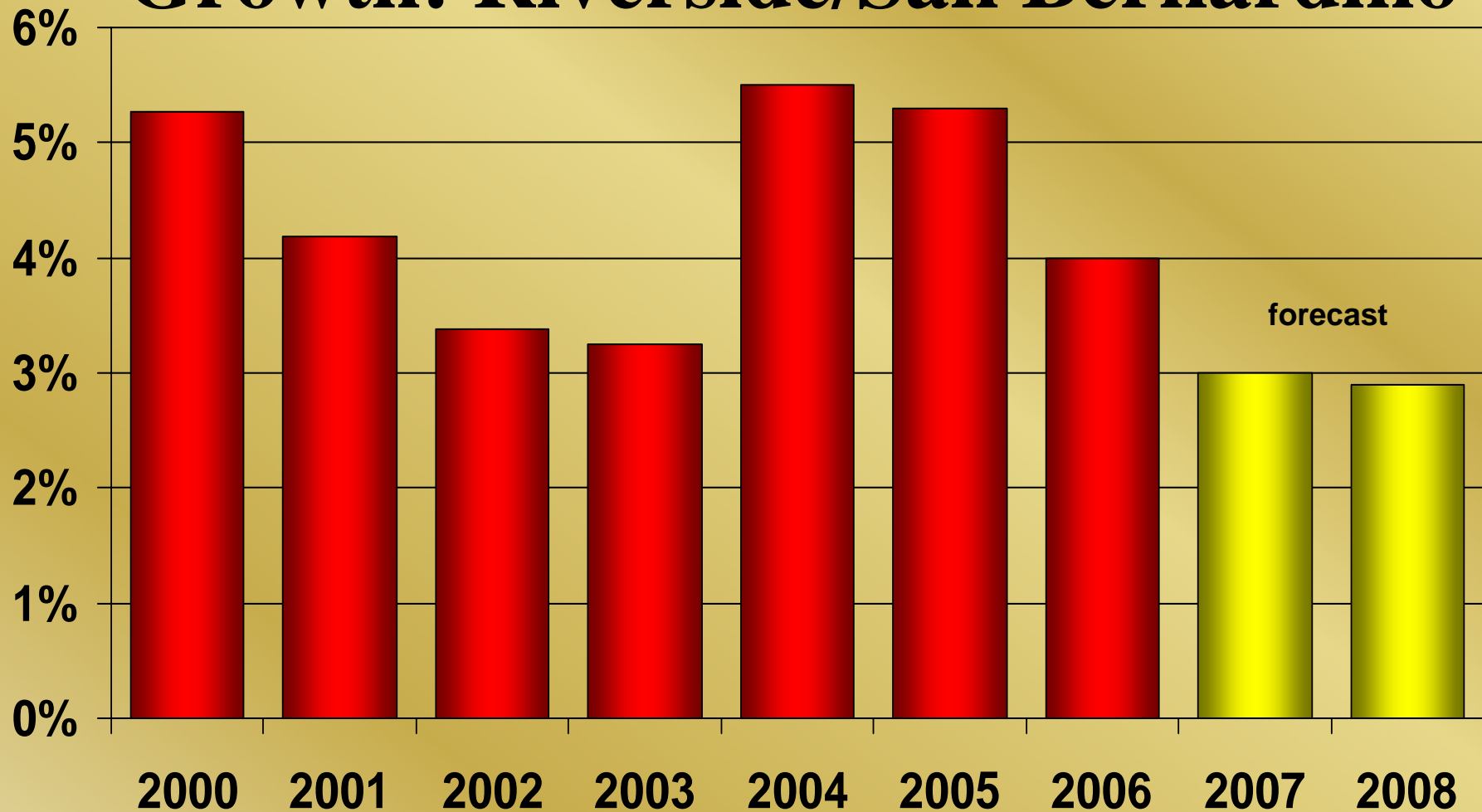
Orange County Sectors with Largest Job Gains in 2006

Prof. & Business Services	10,500
Construction	7,100
Health/Private Education	5,400
Leisure/Hospitality	4,500
Retail	1,400

Economic Outlook
Riverside/San Bernardino

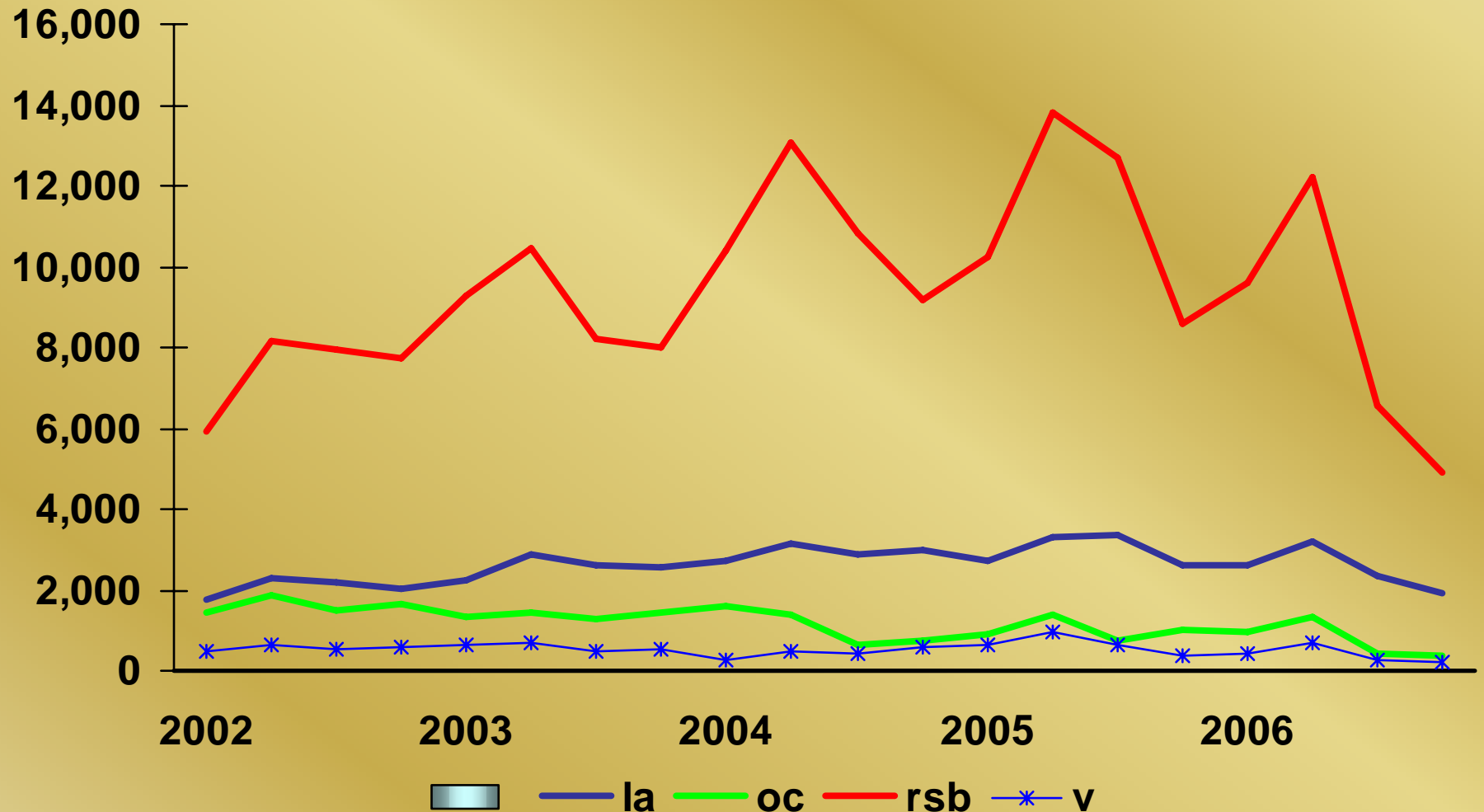
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Total Nonfarm Employment Growth: Riverside/San Bernardino



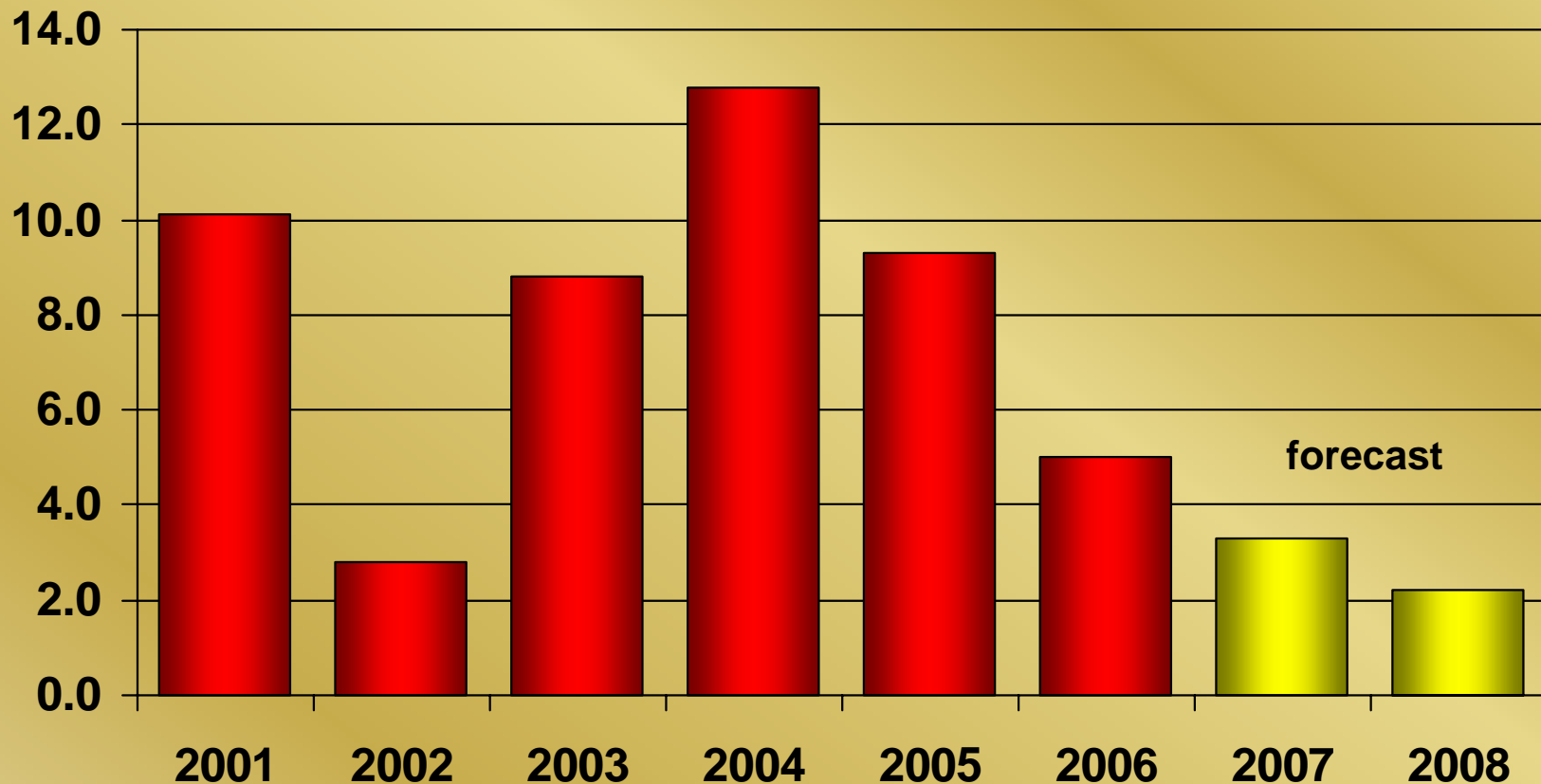
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Building Permits by County



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Riverside/San Bernardino Construction Employment Growth

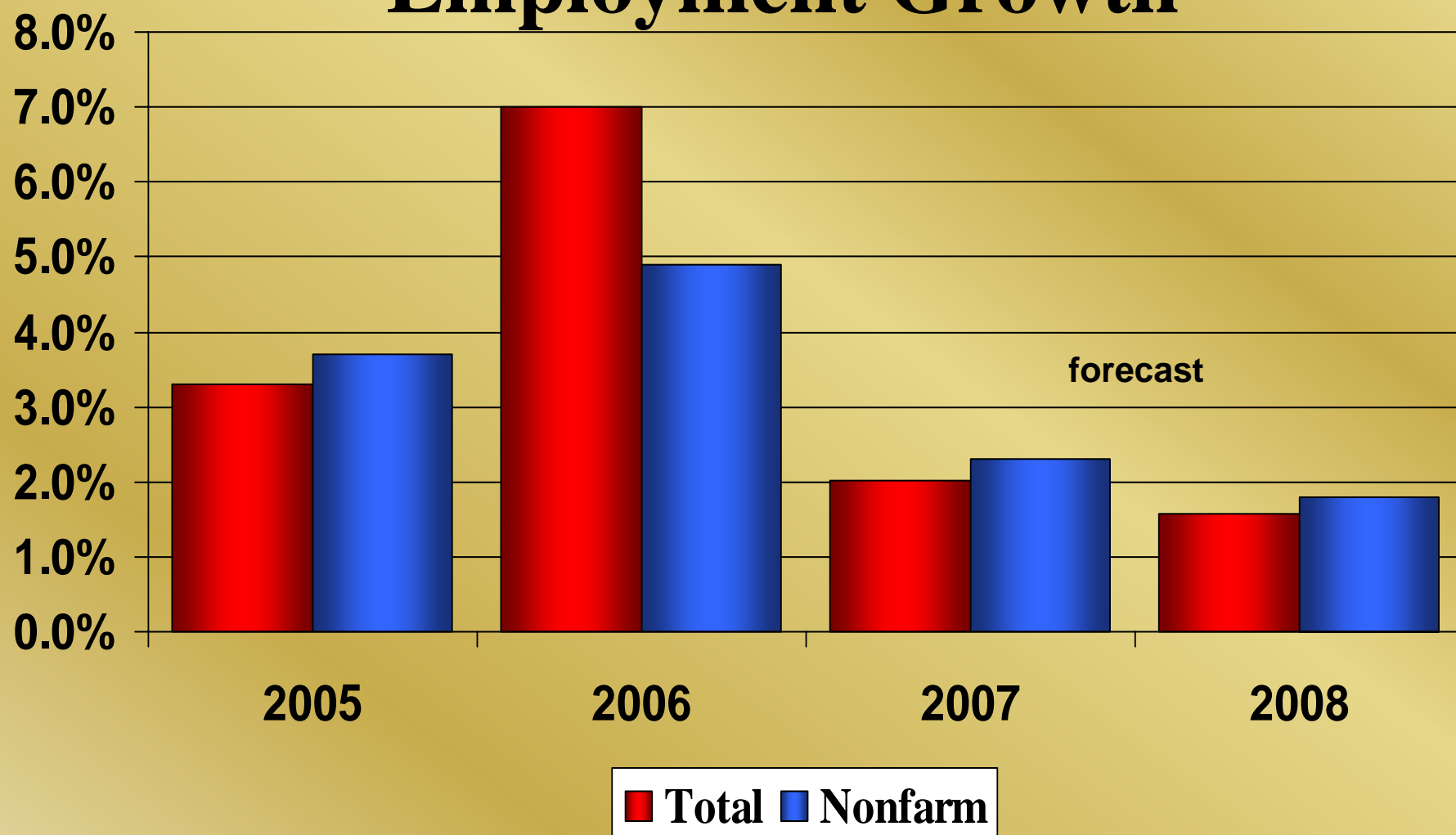


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Economic Outlook *Imperial County*

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Imperial County Employment Growth



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The Regional Housing Market

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Downturn in Housing Market is Now Evident

County	2005	2006	Jan. 2007
Los Angeles	20.1%	9.3%	6.1%
Orange	14.0%	6.0%	0.0%
Riverside	23.1%	8.5%	1.2%
San Bernardino	31.7%	12.5%	4.2%
Ventura	17.5%	4.1%	-6.5%
San Diego	10.6%	0.9%	-5.6%

Source: Dataquick

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On the Positive Side

- **Regional job growth looks solid**
- **Interest rates have moved upward very slowly and Fed has paused in its rate hikes**

On the Negative Side

- **Notices of Default are rising sharply**
- **Bad news from national market will depress expectations**
- **Affordability in region still low**

Conclusion

Regional housing market will see below average appreciation rates for an extended period, but should escape a period of prolonged depreciation.

Thank you!

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(562) 985-5061

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